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THE DEPARTMENT OF DEFENSE METHOD OF DETERMINING THE CURRENT AND OUTYEAR OPERATION AND MAINTENANCE BUDGET REQUEST

HEARING

BEFORE THE

SUBCOMMITTEE ON PREPAREDNESS

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

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THE DEPARTMENT OF DEFENSE METHOD OF DETERMINING THE CURRENT AND OUTYEAR O&M BUDGET REQUEST

THURSDAY, NOVEMBER 7, 1985

U.S. SENATE,
SUBCOMMITTEE ON PREPAREDNESS,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met in open session, pursuant to notice, in room SR-232A, Russell Senate Office Building, Senator Gordon J. Humphrey (chairman) presiding.

Present: Senators Humphrey and Dixon.

Staff present: Ronald P. Kelly and David S. Lyles, professional staff members; Patricia L. Watson, research assistant; and Lisa M. Tietge, staff assistant.

Also present: Allan W. Cameron, assistant to Senator Denton; Alan Ptak, assistant to Senator Gramm; Charles C. Smith, assistant to Senator Dixon; and Milton D. Beach, assistant to Senator Glenn.

OPENING STATEMENT BY SENATOR GORDON J. HUMPHREY, CHAIRMAN

Senator HUMPHREY. Today the subcommittee will receive testimony from the Department of Defense on methods of determining O&M programs and funding requirements for the current and future fiscal years. The hearing will begin an examination of the problems in determining O&M funding requirements for the current year, but especially the outyears.

The problems range from how funding requests are prepared to how major new expensive additions in the future O&M are integrated. Modernization of existing forces and the introduction of new weapons systems will require adjustments in O&M funds. Ensuring adequate planning and funding for these programs remains a concern.

Our witnesses today are Mr. Paul Dube, Director of Operations, Office of the Assistant Secretary of Defense, Comptroller; Brig. Gen. Chuck Williams, Director, Operations and Maintenance, U.S. Army; Commodore Jeremy Taylor, Director, Operations Division for Navy and Marine Corps; Col. Gerry von Bargen, Deputy Director for Budget for Operating Appropriations, USAF.

Mr. Dube, will you begin, please?

STATEMENT OF PAUL DUBE, DIRECTOR, OPERATIONS, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE, COMPTROLLER, ACCOMPANIED BY BRIG. GEN. CHUCK WILLIAMS, DIRECTOR, OPERATIONS AND MAINTENANCE, U.S. ARMY; COMMODORE JEREMY TAYLOR, DIRECTOR, OPERATIONS DIVISION FOR NAVY AND MARINE CORPS; AND COL. GERRY VON BARGEN, DEPUTY DIRECTOR FOR BUDGET FOR OPERATING APPROPRIATIONS, U.S. AIR FORCE

Mr. DUBE. Mr. Chairman, I have prepared a written statement which I have submitted and would propose not to read unless you prefer, but I would like to touch on a couple of the major points of things that I tried to capture in there.

Senator HUMPHREY. Fine.

Mr. DUBE. Before I start, I would like to thank the chairman for this opportunity to appear before you face to face to discuss this problem. Of course, we have a great deal at stake in the understanding that the committee has about this area, and we hope we are in a position to be responsive to your questions and provide the insight that you are looking for in this area.

As I prepared for the hearing, I was struck by the fact of trying to take the O&M program and make it understandable, simple, and related to what drives it. I found myself in essentially the same position that I am usually in in January after we lock up the budget that is, when I need to prepare for my leadership, to get them ready for the Congress, one-pagers, or brief summaries of what is O&M. Traditionally what tends to be highlighted in that situation are the flying hours of the services, the steaming hours, the Army cost to maintain and operate its tanks and vehicles and so forth. Also the depot maintenance programs to keep all of that equipment going, and usually real property maintenance, which, while not sensitive to the weapons system is widely recognized and understood. But when you get through those highlights, you have talked about roughly a third of the O&M budget, and when you try to relate the rest of it, you encounter problems in articulating what is in there and what is driving it. As I sat there, I gave myself time for a 3-minute list of the kinds of things we are dealing with in O&M that are problems in terms of putting the budget together and trying to link them back to these direct readiness enforcement drivers. I just came up with a random list in no particular order of the kinds of things we finance in O&M that somehow don't seem to be directly related to that.

The first one that came to mind was dependent schools. We operate a worldwide dependent school system, something like $664 million in the 1986 budget, the requirements for which are going to be a function of something very different than the weapons systems being introduced.

It is going to be related to the enrollment and the quality of education we are attempting to provide. Another one is the CHAMPUS Program where we finance the cost of care in civilian hospitals for military families and retirees and their families. Those costs are not going to be very much affected by the weapons systems that are coming in or the training tempo or the operating tempo.

I just went down a long list. Disability compensation, the standard level user charges to pay the rent where we are renting from GSA, recruit training, specialized training. They will be affected somewhat by the weapons systems, but not entirely driven by it. Medical programs, space support programs, pre-positioned ship levels, postage for the Department of Defense are financed here, and they are not going to be terribly sensitive to this.

I have a whole laundry list I have gotten about halfway through, and each of those has to be developed and estimated in the budget based on the kinds of things that are going to affect that requirement. We have to deal with a great many different things, and that is part of what makes forecasting the requirements difficult. It is part of our challenge in articulating what is this $80 billion for, because it has got so many different kinds of things driven by different kinds of factors that are not quite relatable to the more visible decisions about weapons systems and force levels.

Having said that our challenge is for us to be able to convey to the committee all of these things and how we put the budget together, and how well we recognize the things that will drive the cost, because there are so many.

What I would like to do now is call your attention to the overview booklet that we prepare every year for you. I would like to walk you through it, because in our discussions with the staff in terms of the kinds of questions you have, I think a good bit of the answers will come from this book or what we can build in the way of additional details from it.

What we try to do in this book is to put together the O&M story for you. The book has different colored pages. It has a series of summaries on the white pages in front which summarize the whole request first by service and by appropriation, then by the major force programs we use in programing, such as strategic forces, general purposes forces, intelligence, communications, and so forth.

Then on the next page, on page 4, we attempted to display again that same data recast a different way into some of the major activities that we aggregate our cost into to try to break it into something meaningful and understandable.

Obviously, there is an infinite range of ways it could be arrayed. We have selected these because these are the major increments of the program that the O&M appropriations are financing, and it gives you an idea of where the major shares are, and what the relative shares are in these categories.

The remainder of the white pages are an attempt at a very high level narrative of the overall O&M picture. Following that, the set of blue pages are details on each of these major categories that we have with the details that we are able to put together in a relatively short time after we finalize the budget. We tried to give you whatever information we can there about the programs such as flying hours, inventory of aircraft, and the hours and the cost broken by service, and with a brief narrative description of the highlights of that particular program. We go through all of these, and then we take essentially that same information and respread it for you or redisplay it for you in terms of the appropriations, and then give you a brief highlight narrative on the appropriations.

And then finally there are some key data with respect to some pricing assumptions, some tables related to the civilian and military manpower trends, fuel prices and that sort of thing.

We put this together shortly after we submit the budget, and we are somewhat constrained by our ability to gather the data quickly and put it into this form. Obviously, behind this data is a great deal more data, and more details to support the request.

And with that, I would propose to conclude my opening remarks and prepare to answer your questions as best we can.

[The prepared statement of Mr. Dube follows:]

PREPARED STATEMENT OF L.P. DUBE, DIRECTOR FOR OPERATIONS, OFFICE OF ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Mr. Chairman and members of the committee, it is a pleasure to have this opportunity to appear before you to discuss the Operation and Maintenance portion of the Defense budget.

With me at the table today are the officials of the Military Departments most knowledgeable about O&M matters in their respective Services. Brigadier General Chuck Williams is the Director of O&M for the Army, Commodore Jeremy Taylor is the Director of the Operations Division for the Navy and Marine Corps, and Colonel Gerry Von Bargen is the Deputy Director of Budget for Operating Appropriations for the Air Force.

Mr. Chairman, there is virtual unanimity of opinion that we must provide adequate funding to carry out day-to-day requirements to operate, repair, maintain and support the people and the equipment that make up today's modern and capable military force. Despite that unanimity, we face a major challenge in ensuring that the funding levels we request of and receive from the Congress provide the proper balance between resources and requirements. Because of the relatively high outlay rate of the O&M accounts, they will likely be prime targets whenever reductions are being considered.

Our purpose here today is to provide the subcommittee with additional insight into the process we use to estimate and program for future O&M costs.

Before discussing the process, however, I would like to discuss some of the characteristics of the O&M title which create difficulties for us, not only in forecasting our needs, but in articulating and defending them to others. The O&M accounts finance such a wide variety of activities and programs that we encounter substantial difficulty in synthesizing our requirements in a way that can be readily understood.

Many (if not most) of our requirements are not directly sensitive to the major weapon systems and programs on which most of the attention in the Defense debate is focused. For example, real property maintenance requirements are affected primarily by the size and age of our physical plant, coupled with our programs to provide a decent working and living environment for our people. The bulk of our costs for depot maintenance are for weapon systems which have been in the inventory for several years. Our medical costs are less a function of the size of the active force than of the size of the retired population and the ratio of family members, as well as changes in benefit levels and costs of care by civilian providers. Air Force's Space Support costs are driven by the number and location of launches, as well as our agreements with NASA on cost sharing. O&M costs are particularly sensitive to foreign currency exchange rates and the prices to be charged by our Stock Funds and Industrial Funds. These factors will have a more significant impact on any given year's O&M costs than the introduction of new weapon systems or force level changes.

Certain other programs are somewhat more sensitive to the specific weapon system mix. Costs associated with flying hours, ship steaming hours and individual and unit training costs are more directly affected by the delivery of new weapon systems, but it must be remembered that the bulk of our costs in these areas are related to our more established weapon systems, and are affected more by decisions concerning operating tempo than by new hardware to be supported.

Not surprisingly, there is a wide range in the degree to which the outyear estimates of various O&M programs can be related to weapon systems and force structure. At one end of the spectrum is the Navy's ship overhaul program. For the most part, ship maintenance cycles are well established and predictable. Therefore, using return costs for previous overhauls of similar ships, along with scheduled intervals

between shipyard availabilities, it is possible to predict outyear costs for ship overhauls fairly accurately.

Similarly, aircraft depot maintenance requirements are programed based on established rework intervals applied to the projected aircraft inventory. The larger population of aircraft compared to ships makes the development and updating of estimates somewhat more complex, but the basic mechanisms are similar.

At the other end of the spectrum are programs such as base operations and logistics support, the requirements for which are much less susceptible to quantitative measures and calculations. While no less important to getting the Defense job done, programs of this nature are much more difficult to forecast years in advance.

My purpose in presenting this litany is to underscore the diversity of factors which must be considered in developing and evaluating O&M requirements. The difficulty of doing so is real and significant in the near term. It is magnified many times over when attempting to deal with the outyears.

Let me turn now to the process that we use to come to grips with the difficulties I've been discussing.

The Planning, Programing and Budgeting System (PPBS) is the basic process for developing our outyear estimates for all programs in the Defense budget, including O&M. While O&M costs may be subject to somewhat more uncertainty than some others, the Services and Agencies do the best they can to forecast the effect of all of the factors affecting the O&M requirement as they update the Five Year Defense Plan (FYDP). The FYDP is the internal planning document that we use to identify planned force levels and funding requirements for the budget year and the following four years.

When we submit our budget to the Congress in January or February, we update each of the years in the previous FYDP to reflect the programmatic and financial assumptions contained in the President's budget. The Services each have their separate mechanisms for gathering and evaluating the estimates to be incorporated into the FYDP for each update. All of the factors affecting the estimates, including latest actual experience, congressional action, program decisions, force structure changes, revised delivery schedules and a host of other actions and influences are considered in these updates. It is not a perfect process by any means, but it does provide an opportunity to continually refine our estimates as more and better information becomes available.

On balance, we believe the process results in a set of estimates which are roughly right based on the assumptions we use. Within the limitations I've mentioned, we think our estimates consider all of the relevant factors which can be expected to have a determinable impact on our programs.

Senator HUMPHREY. Senator Dixon?

Senator DIXON. I have an opening statement..

Senator HUMPHREY. We will insert in the record, at his request, the statement of cochairman Senator Dixon.

[The prepared statement of Senator Dixon follows:]

PREPARED STATEMENT OF SENATOR ALAN J. DIXON

Mr. Chairman, I join you in welcoming the witnesses to the subcommittee this afternoon.

I would like to commend you, Mr. Chairman, for holding this important hearing. As we all know, the Operations and Maintenance or O&M accounts comprise approximately 25 percent of the Defense budget. We have a tremendous oversight responsibility in this area. It is vital that the subcommittee be kept up to the date on the Defense Department's method of determining the current and outyear requirements for operation and maintenance funds.

I think we have to keep in mind that the procurement dollars we spend on buying new weapons systems today represent only a small down payment on the total life cycle costs of these systems. If we don't program adequate operation and maintenance funds to operate, support and maintain these systems in the future, then our decisions to spend billions of dollars on shiny new weapons today are penny wise and pound foolish.

Mr. Chairman, I look forward to the witnesses' testimony. I will have questions for them after their prepared statements.

Senator HUMPHREY. Are the responsibilities of the military witnesses approximately the same, the military witnesses before us

today? Do you each have approximately the same responsibility in your branch? This is symptomatic, isn't it, of the whole problem? You all have a completely different title. There is just no uniformity between the services so that we can compare and perhaps discover duplication of effort, and it starts right out at the top with the titles and the names of the offices. We are going to have to work on that, I think.

Well, my two goals today are these, to explore the matter of uniformity in the account submitted by the services, in the budget request, and to see why we cannot have uniformity, standardization of nomenclature to the greatest possible extent so that the Congress can more adequately examine these requests, and my second goal is to try to have a better understanding for my part on how the outyear O&M costs are estimated and whether or not we are providing adequately for the introduction of new weapons systems, and perhaps if indeed we are not adequately estimating outyear O&M to perhaps come to some preliminary conclusions about what we can do to improve that situation, and until the situtation improves, I am going to point out at each hearing that when I say staff, that means one person available to the chairman to oversee how many, $84 billion in spending. One staff person to oversee $84 billion. There is no way that an adequate job can be done even when that staff person is as capable as Mr. Kelly, and as hard-working.

So much for my complaint. Mr. Kelly has assisted me in propounding some questions that hopefully will lead us toward the conclusions I have outlined in my two stated goals for this hearing. Mr. Dube, the committee at various times has recommended considering breaking out O&M funds by mission, strategic land power, and so on. Where does examination of that proposal stand at DOD?

Mr. DUBE. I am not sure I am aware of the specific proposal that you are referring to in terms of breaking out O&M that way. We do break it out in something that is reasonably close to mission areas in terms of those 5-year defense program categories, strategic forces, general purpose forces, intelligence, and communications. I understand there are a number of other mission area looks that are made, but I am not aware of a proposal that we are considering at this time.

Senator HUMPHREY. Well, if one were forthcoming, if a request were forthcoming to reorganize the O&M data by mission, can the current system sustain such a request. Can it be reorganized that way?

Mr. DUBE. There are a number of different ways to display the data. With appropriate definitions we can come reasonably close to almost any data display. One of the difficulties we have, one of the things that drives how the accounts are organized, is essentially how the services are organized and how programs are actually conducted and financed. To be successful in this, there has to be that ability to go out and administer programs and spend money in some relation to how you are organized and what the responsibilities of those various people are.

We have the ability to display it in a number of different ways. Whether or not that would force us, for example, to organize differ-

ently and administer the money differently, that would create a much more significant problem.

Senator HUMPHREY. But what is the short answer, if that request were made? Can DOD do it? Or would it represent a major problem?

Mr. DUBE. In terms of displaying the O&M data in mission categories?

Senator HUMPHREY. Yes.

Mr. DUBE. I think we can do most of that, depending upon how the mission categories are defined, but I think we could display that data fairly readily.

Senator HUMPHREY. That proposal is part of the reorganization, package of reoganization now under consideration.

Mr. DUBE. I did happen to see something on that. Displaying data is one thing. If it were to be authorized and appropriated that way and we had to manage it in those terms, that would create a completely different problem, because then you would have to change how you are doing business and some problems would be attendant with that. I don't know, but I can expect they might be significant.

Senator HUMPHREY. Well, the current situation is that we authorize and appropriate using one set of figures, one set of accounting, and then the services account for the expenditure of those funds in a wholly different way. Is that not the situation?

Mr. DUBE. That is not my understanding. The accounting system and the budget system are based on the same thing. Our budget estimates are based on the accounting data arrayed in specifically those terms. Our first subdivision below the appropriation level is the budget activity which coincides with the FYDP programs, strategic forces, general purpose forces, intelligence, and communications and so forth. Everything is broken down from that, and in that same manner.

Senator HUMPHREY. Is there not a difference between the terminology used in describing the accounts in the budgeting process and the terminology used in ultimately accounting for the spending of that money?

Mr. DUBE. Not to my knowledge. The breakdowns we use in the accounting system to gather the data and array it, and report on it for building our budgets are in essentially the same terms.

Senator HUMPHREY. I am going to ask Mr. Kelly to ask a question.

Mr. KELLY. We have a GAO recommendation that has been reviewing the O&M area, and they were discussing the difference in the terminology where the units built up during the PPBS cycle developing the budget, and then when the money came back to the DOD and it was spread out and expended, the accounting system for that was different, and one of the things that GAO has recommended that the budgeting system and accounts of terminology be closer to the expenditure terminology accounts and system.

Mr. DUBE. They are based upon building blocks, and obviously you account at times on a more finite basis than you budget, but there isn't any incompatibility between them. They build into the same structure. I just don't quite recognize exactly what they are relating to in that.

Senator HUMPHREY. Well, we can explore that further if necessary. Can O&M funding be broken out by unified, specified, and joint operations?

Mr. DUBE. Specifically in those terms it is very difficult. Now, I have some data with respect to how much money goes to the unified command headquarters, how much for the transportation cost associated with JCS exercises. We program those that particular way, but when you are talking about joint operations, you are talking about really most of the money in the deployed forces. They are, one way or another, on a joint basis, because their forces are under the command of a unified commander, but they are financed through the component commands. Therefore to say the ships out in the Med, for example, the operating cost of those, would that be a joint cost or not? Yes, under the purview of a unified commander, but we identify them as Navy costs. The services have some ability to estimate the cost of the various forces participating in JCS exercises, but as a budgetary line item it is not broken as a line item that way, because that is not what is going to drive those costs. So we have some difficulty with that in terms of how much of the O&M budget is in joint operations is rather difficult to say.

Commodore TAYLOR. Mr. Chairman, let me add that our participation is included in the fleets' budgets, and it can be tracked if requested, and it is all the time.

Senator HUMPHREY. Well, inasmuch as most of the O&M funds are requested and appropriated to the individual services, what is the process for paying for a joint multiservice operation?

Mr. DUBE. Well, in terms of paying for it, each of these services have as part of their basic mission responsibility supporting and reacting to the direction of the unified commander in that theater.

If you have a joint operation that involves Navy ships, Air Force aircraft, and Army troops and so forth under the military command, they develop what it is they are going to do, where they are going to go, or how many missions to fly, and so forth. They are responsible for meeting that mission and financing the cost of it.

And so they finance those costs the same way they would if there weren't a joint operation. But there the key is not the financial responsibility driving it, but that the military chain of command is doing it, and so the financing in that sense is not a problem at all.

Senator HUMPHREY. I think the concern here is that the committee has no way of knowing of discovery, duplication of effort. When we look at each service individually, inasmuch as we don't—let me see how to express it. Apparently we get no accounting for multiservice operations, for joint operations, so when we look at these services individually, we have no way of knowing whether they were duplicating each other's efforts, if you follow me.

Mr. DUBE. My only point to you, Mr. Chairman, would be, I am not sure that accounting for joint operations would go to that question. When you have a multiservice operation to carry out a particular operation, that is not where the question of whether or not we have duplicate forces will really show up, because of the different missions assigned to each of the services.

I just don't see that accounting for it that way would get you there. When you are talking about do we need to look at the missions and so forth—those questions and the answers to them are

going to be found somewhere other than in the budgeting and accounting system.

Senator HUMPHREY. Can an accounting and/or budget system be developed which will allow analysis of total DOD spending in a number of key categories, for instance, modernization, utilities, and so on?

Mr. DUBE. Yes, in fact, Mr. Chairman, I think it has. If I could direct your attention again to that overview on page 4 of the overview, we have got a number of key categories. Now, as I indicated earlier, it is not an absolutely exhaustive list, but it is a set of very meaningful categories.

I would make just a point here that we have a program that we call modernization which I think is different than the modernization program you are talking about. We have to define it differently. This is for the installation of equipment and so forth to modernize existing weapons systems, and these are the O&M costs associated with installing them.

Now, in your question, you mentioned two things, and of course what becomes one of our problems is taking any set of crosscuts and trying to stay on the same basis. For example, if we talked about modernization, somehow you would define that and array the data, but then if you took something that is more like an element of expense or an object class like utilities, we can aggregate costs that way, and we do.

But when you go into that input-oriented thing, using the object class approach to it, it becomes mutually exclusive with a functional basis or a program basis. We in fact would prefer not to array data on an object class basis simply because when you see things like here is how much we pay for civilian personnel, or here is how much for travel, or utilities, and so forth, what you do not get any insight into at all is the program that that is supporting.

Utilities are utilities and people are people regardless of what they are doing. We prefer to be able to express the budget in program terms, although we have always had to maintain the ability to identify our cost by object class because we have been asked for that information, and we have provided it. We maintain a number of different crosscuts to this information, and we can do that.

Senator HUMPHREY. Are there a group of categories and/or summing accounts which could be used in all of the service O&M accounts to permit a comparison of the total analysis?

Mr. DUBE. That is what our objective is when we put this book together, to try to do that. We try to add up the similar things into these meaningful categories and array them in that way.

Senator HUMPHREY. Senator Dixon?

Senator DIXON. Mr. Dube, as you know, I have been very interested in the question of financing adjustments and savings in the defense budget as a whole, and in the O&M accounts in particular. I think you remember earlier this year my correspondence with Mr. Helm, the DOD Comptroller, on the question of financing savings in the fiscal year 1986 budget request for O&M.

In mid-March of this year, Mr. Helm wrote me that he did not have enough information to determine whether substantial financing savings could be made in the fiscal year 1986 budget request, but 2 months later, in mid-May, the Secretary of Defense identified

a total of $4 billion in financing savings in the defense budget request for fiscal year 1986 of which $1 billion was in the O&M accounts.

This $1 billion in O&M financing savings was in addition to the $1.7 billion in O&M financing that the Armed Services Committee had already identified. Now, I understand that the House Appropriations Committee dug even deeper into what appears to be an unending supply of financing savings in the fiscal year 1986 O&M budget. What is your view of the approximately $4.4 billion in financing savings in the fiscal year 1986 O&M budget achieved in the House version of fiscal year 1986 defense appropriation bill?

Mr. DUBE. We agree with some and not with others. Some of the financing adjustments that they made we disagree with. Specifically the industrial fund profits. I think they have overstated the number, but there I am arguing over the number and not the fact that there have been more positive results in the industrial funds than we predicted when we put the budget together. A financing adjustment for that purpose is appropriate. We disagree on the magnitude and how they calculate it, and I frankly think——

Senator DIXON. Do you remember offhand how much of that $4.4 billion that the House suggests is a reasonable amount you would disagree with in total?

Mr. DUBE. I do not have the numbers handy.

Senator DIXON. Could you provide it in a letter to my office?

Mr. DUBE. Yes, sir.

Senator DIXON. With specifics about why you disagree?

Mr. DUBE. Yes.

[The information follows:]

The Department's position on these reductions, as well as all others, is set out in the Department's appeal to the conferees of both houses. The appeal letter, along with supporting detail will be forwarded upon completion of Senate floor action on the defense appropriations bill.

Senator DIXON. All right. Thank you. Now, is your office taking the necessary steps to comply with the changes that Senator Goldwater and I and others, of course, made in the DOD authorization bill on the reporting by quarters in the future concerning these matters?

Mr. DUBE. My understanding is that effort is underway in terms of how they are going to deal with that. I personally have not been involved in the setting up of the mechanism, but my impression is, yes, that will be implemented.

Senator DIXON. Again, I would appreciate from you something in writing indicating what steps are being taken by the Department to comply with that provision of law that we adopted in response to our frankly disturbed concerns about what occurred on this last round. Could you give me that information?

Mr. DUBE. Yes, sir.

[The information follows:]

Guidance has been issued to the Military Departments and Defense Agencies transmitting the requirements of section 1407 of the fiscal year 1986 Authorization Act. The required reports will be submitted to the Congress at the times specified in the Act.

Senator DIXON. Now, tell me, what are you using as your figures this year for figuring in inflationary factors in other things on fuel and things of that character? Can you tell us that?

Mr. DUBE. Now, when you say this year, do you mean 1987 or 1986?

Senator DIXON. For 1987.

Mr. DUBE. Well, they are not final yet. The factors that we use in the 1987 budget when we submit it to you will be the factors that OMB provides us based upon the administration economic assumptions. We do not have those yet. We obviously are working on an interim basis with numbers, but they are subject every year to adjustment late in the process when all of the economic decisions are made and the assumptions on which the President's budget is going to be based have been established, and so I really do not know what they will be.

Senator DIXON. Has anybody ever asked you in any of these hearings what your response would be to a variety of different articles I have read over a period of time, and I am sure my chairman is seeing the same ones, concerning the fact that there are substantial amounts appropriated by the Congress as a consequence of overestimating the cost in a variety of categories, particularly fuel and things of that kind. What would your response be to those articles? Are those accurate? Or do you think that they misrepresent the facts to some extent?

Mr. DUBE. Well, they tend to be accurate if we turn out to be wrong. We budget for our costs based upon an assumption about what inflation is going to be, what fuel is going to cost, and then it sometimes turns out to be wrong. When we submit the budget in January, we say very clearly, here are the assumptions on which the entire budget is priced. Here are the fuel prices that we have used. Here is the GNP deflator assumption that we have used. Here is how we put that number together.

Senator DIXON. If I could interrupt you, for this year which just began, October 1, what figure did you use?

Mr. DUBE. We used in the President's budget, I believe, a figure of 4.4 percent. Part of that $4 billion offer was related to later data. The midsession update that OMB puts out had a slightly lower estimate of inflation for fiscal year 1986. Part of the offer was updating the economic assumption on which the budget was based, and those numbers then became part of this, and it did say we overstated the 1986 President's budget because our assumption about inflation was wrong. It was then 6 months later, and we had found that out, and we changed the economic assumption. That is kind of the process, and as you go, if you lay out your assumptions clearly, and then as you get further down the road, when there is more information, more actual data, and you find out the assumption is now being changed, it is entirely appropriate to adjust the budget, and I think we have been straight on that.

Senator DIXON. Staff tells me that when they look at the output indicators, that frankly it really does not tell them a good deal. What would your response to that be? For instance, as an example, as I look at the output indicators on flying hours, you tell us that the total is $3 billion for the Air Force and roughly $400 million for

the Army and so forth. That is really about all you tell us. It does not really evaluate what we are getting for our dollar.

What has happened out there to justify what we are doing? What have we improved? What kind of material value do we see in this? Is that an unfair position for staff to take, or do you think we ought to be getting a better indication from you of what we are buying?

Mr. DUBE. It is not an unfair position to take. I think it is a reasonably accurate assessment.

Senator DIXON. What can be done about that?

Mr. DUBE. I do not know. We recognize that is the input. Flying hours are the input. But the ability to measure objectively, comprehensively, consistently what is the impact of those hours has just eluded us. People are working on it all the time, trying to say let us find a way to do it.

Senator DIXON. We know what we get when we buy a Stinger, or we know what we get when we buy an F-15 or something like that, but when you are dealing in this kind of stuff, you give us a report, so many hours for so many bucks, and what does that mean?

Mr. DUBE. If I may respectfully disagree, I am not sure that it is that clear what we get when we have an F-15.

Senator DIXON. Well, maybe that is right, too.

Mr. DUBE. But that seems a little easier to feel good about.

Senator DIXON. At least you can look at it and touch it.

Mr. DUBE. I honestly think that is really one of the things—when you are talking O&M you are dealing with some things that it is so hard to get the visual image, and just what is it that we are talking about? I think that becomes one of the problems for us. It is a challenge to be able to now come around and say exactly what our additional flying hours are or were.

We are confident over here of a positive result, and that is good. But in terms of being able to measure them and say here is its precise contribution to what we are trying to do, it is elusive.

Senator DIXON. I wish you would give some thought to that. You have already given thought to it. I apologize.

Commodore TAYLOR. Senator, there are some very good indications, and it is not conclusive, it is not easy to read, as Mr. Dube said, but in naval aviation, for instance, we can tie hours to the ability to get the job done and the mission readiness. That is really the flight hours tied and the mission readiness of the pilots. That is measured in their ability to put the bomb in the middle of the target, and it falls off if you decrease hours. There are those kinds of indications which are a matter of record and they can be made available to you.

Senator DIXON. Well, I am persuaded that is so just as a matter of general experience, quite obviously.

Commodore TAYLOR. Our safety record gets better as hours are up there. And so we save airplanes, and our attrition of aircraft is down as it has never been before. And I might point out that a real good indication of mission readiness is the ability of four F-14 pilots along with a lot of other folks to go up airborne and get an Egyptian airliner on the ground with the terrorists.

Senator DIXON. Well done there, I must say.

May I ask one more question?

Senator HUMPHREY. Yes.

Senator DIXON. I am just curious about this, Mr. Dube, and all of you. I am sure there must be a great deal of discussion going on about how you are going to respond to the legislation that we have already passed in the Senate and the House has sent back to conference that I think we can all depend upon will become a reality.

Now, I do not know that we can determine exactly what it will look like, but it will probably look a great deal like Gramm-Rudman-Hollings when it left this place yesterday, Mr. Chairman.

Now, obviously that means that there will be substantial sequestering done in the future so that notwithstanding what you bring to us at some point in time, revisions of a quite remarkable nature will have to be made. Are you giving thought now to how you will do that and how you will prioritize and otherwise prepare yourself for fairly massive changes in a great many programs?

Mr. DUBE. People are working in the building. I have not really had a lot of opportunity to really go through it. I have had trouble understanding or keeping track exactly where it is in the process, and to really determine what its likely impact would be. I have had the opportunity, though, to watch on C-SPAN parts of a couple of the conference sessions, and I realize I am not alone in not knowing precisely how it is going to operate and so forth. It is very hard for us at this point to be able to forecast how is it going to operate. I have not been able to figure out what is the degree of specificity with respect to line item identification. If money has to come out of the defense budget, it is not clear to me yet how much ability we are going to have to say you cannot touch that. We can think of some problems. I have got a CHAMPUS bill, for example.

Senator DIXON. Well, you could, of course, depend upon the fact that the contractual uncontrollables are not going to be touched, but in a great many of these areas you are going to have to make selections, as I understand it. I mean, there will be a gross amount that will have to be saved to meet the sequestering provisions of that law, and then as I understand it you are going to have to make some kinds of determinations about how we prioritize within that amount, and I wonder whether the services are giving that serious consideration, because I think this is a reality. It is not yet a reality, but it is a certainty to be one, I think.

For instance, let us just talk about—I have addressed the issue of flying hours. Now, there are all kinds of flying hours quite obviously, some that as my good friend has pointed out would be very valuable.

I think that the flying hours of a naval pilot in connection with his training to land on aircraft carriers and other things of that character are vital to the national security of this country, and most of us have been flown around a little bit in military airplanes, and suspect that some of that is not too terribly important.

I hope there will be ways that we can prioritize these things by every category to see where the best savings could be made. You do not want any of them. I understand that. But it is going to be a thing that we will have to deal with shortly.

And I hope that in your place they are preparing for it, because it is going to happen very quickly, and I think—I don't know how allowable the Chair feels, but I suspect that the sum this year—be

allowable deficit--will go under $18 billion. The House said $161 billion. The Senate said $180 billion. I think the reality is, it will be somewhere around $172 billion or something of that sort, and that means a cut this year.

Mr. DUBE. My reaction, obviously, is that we do not like the idea of a cut. But the administration supports it, and would say all right, for the objective involved, it is worth doing. It would be good news if, when the cut is made, when the amount for defense is determined, that the leadership of the Department and the services have an opportunity to decide where to cut.

Senator DIXON. Might I interrupt by saying here is what I hope does not happen? I hope that they do not all come back. I am not trying to lecture here. I have not been in the Senate that long, but I have been in public service all my life, and I have been through some of these things before, and I hope that the services do not all come back and say you find it, we do not know how to do it, we need every dollar.

I appreciate that argument, but I think you are the people with the expertise and the special qualities to come back and at least say to us, look, this is all important, but if you are asking us on a scale of importance what is 1 and what is 10, here is the way we look at 1, 2, 3, 4, 5, 6, 7, 8, 9, 10. I hope you will be prepared to do that, because I think you are going to have to.

Mr. DUBE. Well, as a matter of fact, I was not aware the law would give us the option of saying you find it. It seems to me we are going to have to when that is triggered, and I hope we will have the opportunity. I might want to mention in that context one of the characteristics of the O&M accounts that might create some misunderstanding down the road as we go through and we get into the year. Let us say that kicks in this year. You are going to find something that nobody likes, but it becomes a fact of life.

When we say you have got to take x out of the O&M budget, what is going to come out is not going to be entirely based on somebody saying here is my set of priorities, and I am going to take out the lowest priority things in the near term. When you are talking in the execution, you are going to have to be dealing with those things that you can vary and for which you can control your cost.

One of the major determinants is not going to be its priority, its contribution to the mission, but its deferability and its controllability, and that relationship isn't exactly the same as priority.

Senator DIXON. Well, I would not have any quarrel with that. I think there are various ways that you determine what comes out and what stays in, and I was not trying to tell you how to do that. I am just saying that it is going to be a very hard problem for everybody, but my sense of it is, nobody is going to have a worse problem than you folks, and on that basis the more preparation you do now, the better. It has not gotten out of conference committee yet, but if anything is a cinch to happen, that is a cinch to happen, and I should think you ought to be looking forward to a few months down the road.

I cannot remember the triggering date on that. It does not matter for now, but I would hope that you folks are preparing for it now.

Mr. DUBE. There is a lot of worrying going on. I am not sure I would quite put that into the preparing category.

Senator DIXON. If it helps you any, we are all worried. [General laughter.]

Thank you, Mr. Chairman. I overused my time, I am sure.

Senator HUMPHREY. Mr. Dube, are there means within the DOD and O&M accounts to determine what portion of the O&M funds are expended within the United States and how much overseas?

Mr. DUBE. In our budget projections, when we are looking at the budget, that is not a particularly meaningful driver.

Senator HUMPHREY. I understand, but that is my question, if you could keep it simple.

Mr. DUBE. Yes, some of the data is collected, and I did bring with me a book that is produced of the expenditures by state in CONUS and the difference between that and overseas. That has O&M data in it which I would be happy to provide the chairman. It is done, but it is done on an actual accounting basis. We do not make projections.

Senator HUMPHREY. Fine, and can you determine what part of stateside spending is overseas-related?

Mr. DUBE. I would not know how to do that, Senator.

Senator HUMPHREY. Good. That is a nice, straightforward answer. Each year recently DOD is given a continuing resolution for the next year's funding, as you know too well. Does this continuing resolution practice affect contracting and cost of the O&M part of the budget? And obviously the answer is yes. How does it affect it?

Mr. DUBE. Well, it has the effect of making it a lot more difficult for somebody to let a contract for annual services. Now, we have the authority to let the contract for annual services, but we have to continue at the same rate of operation, so it is not unusual for us to have to do it in two steps, and exercise an option to increase the level of service.

Senator HUMPHREY. Well, apart from contracting, in what other ways do continuing resolutions affect O&M costs?

Mr. DUBE. The actual language of the CRA allows us to continue operations, and that is basically what the O&M accounts are. The legal language is not of terribly bad impact on O&M except in a rare case or two.

What is a real killer, though, for the managers out in the field is the fact that the fiscal year is already under way, and we are asking them to get the job done, to save money.

Senator HUMPHREY. I know that, but that is not our concern at the moment. We have got too many other things to worry about. So, beyond contracting, how does it affect O&M? Does it balloon O&M costs some way apart from contracting?

Mr. DUBE. It makes execution harder because people have to defer until they know what their availability is going to be. And we go halfway through the year without knowing how much money we are going to have to spend. We do not do it as well as if we knew right from the beginning.

Senator HUMPHREY. Do you have an accounting process for tracking where the dollars requested are in the end expended?

Mr. DUBE. Yes, sir.

Senator HUMPHREY. You do?

Mr. DUBE. Yes, sir.

Senator HUMPHREY. And do you have an accounting process that tracks those dollars through reprogramming?

Mr. DUBE. Well, essentially the reprogramming process is how allocations get made, which is the basis for the accounting. Yes, sir, it takes that all into account.

Senator HUMPHREY. Do you have any idea, say, on a percentage basis of how many dollars are ultimately not expended for the purpose for which they were requested? Can you apply any kind of yardstick to that?

Mr. DUBE. No; I would say most, and in general terms probably the bulk of it is for the kinds of things that we ask for. Now, there is a lot of uncertainty, and you move money from one spot to another, but primarily it is substantially the basis upon which we testified. But I couldn't give you a percentage.

Senator HUMPHREY. Is there any way that you could develop subsets that would allow us to evaluate combinations or consolidations of functions or facilities?

Mr. DUBE. I am not sure I know exactly what you would need to do that. To a degree, we have done that by aggregating the service programs, similar service programs together, but obviously that does not tell you much in terms of what you need, in terms of whether or not we should or could consolidate them.

Senator HUMPHREY. Have you ever undertaken or have you recently undertaken a study of duplication of effort within the O&M accounts?

Mr. DUBE. In a sense, every time we are reviewing the budget, we are looking for that, but not a specific study.

Senator HUMPHREY. Not as a dedicated effort? Would that be a difficult undertaking?

Mr. DUBE. I think it would, and it would be one where I would not expect a high payoff out of it in terms of given the individual roles, functions, and so forth of the services. I am not sure that we would generate a high payoff.

Senator HUMPHREY. I am not sure I share your estimate of the payoff on that.

Commodore TAYLOR. Senator, we do in the Navy a midyear review as well as an extensive budget review ahead of time. I have a staff of 40 budget analysts, all of whom are responsible for individual accounts, who watch the accounts and get monthly accounting data on which to check and track how well we are doing in the execution of the plan in the process of the review.

Everything is held out there for scrutiny, and the idea of looking for redundant effort because we know that we want to get the most for the bucks, these things come out on that basis, and that is pretty formal.

Senator HUMPHREY. What I am talking about is redundancy and duplication between the services, not within one branch.

Commodore TAYLOR. Well, we go through the same sort of review with Mr. Dube's office, so that he approaches it at his level from the same point.

Senator HUMPHREY. Well, are you empowered to make recommendations to eliminate duplication?

Mr. DUBE. Certainly to make recommendations.

Senator HUMPHREY. Have you made any?

Mr. DUBE. Not in the last year or two.

Senator HUMPHREY. Because you have not discovered any?

Mr. DUBE. Bascially that has not been the primary focus of our review.

Senator HUMPHREY. Maybe it should be.

Mr. DUBE. That is a judgment that could be made.

Senator HUMPHREY. To follow up on a question that Senator Dixon asked, and I confess I was not paying attention, but under what circumstances did the services notify the oversight committee of program changes that affect O&M prior to the budget deliberations? Do you have a procedure for that, or is it ad hoc?

Mr. DUBE. There is not a formal mechanism for doing that, but obviously we are in dialog with the committees in terms of hearings, and the services are appearing before the various committees and answering questions and so forth. That is the primary vehicle for conveying that information back and forth.

Senator HUMPHREY. Do you represent that that informal system is working well, or what?

Mr. DUBE. Well, I am not sure. Depending upon what you meant by program changes, I think to the extent there are program changes, they presumably do come to light in these hearings as the budget is reviewed.

Senator HUMPHREY. Should there not be a formal process to continually update the submission as program changes are made?

Mr. DUBE. Well, I think that would have some advantages, but there would be some huge disadvantages both to us and to the Congress. Now, if we had essentially a rolling budget, and frankly, we reach a point where we lock it and we say, here is the budget, and here is the data that supports it, and why we got to that number.

If we were constantly updating that, we would have a nightmare in terms of any ability to communicate about what was in the budget and what was and what was not, I really think that would involve a lot of problems not only for us but for the committees as well, because we would be constantly moving goalposts, as people keep calling it.

Now, obviously, we ought to be——

Senator HUMPHREY. Well, where do you freeze things, at what point? What date in the calendar do you freeze things after which you do not advise the Congress of changes?

Mr. DUBE. Essentially in late December when we lock up the budget. That is the President's budget and that is the budget that we support.

Senator HUMPHREY. So we could be 3 or 4 months behind actuality by the time we do our work here if not even further?

Mr. DUBE. That is correct.

Senator HUMPHREY. Is DOD capable of providing more timely information if it is requested?

Mr. DUBE. I think so. We can provide you the latest that we have got, whatever it is.

Senator HUMPHREY. I think this question in a way follows up on one of Senator Dixon's also. What effort is being made to develop

program indicators that measure how increases in O&M funding are related to program achievements.

Mr. DUBE. There are under way a number of efforts. The JCS is currently involved in one to try to improve those output indicators. I think each of these services——

Senator HUMPHREY. The readiness indicators, do you mean?

Mr. DUBE. Well, both the readiness and the program indicators relating to them. How to express the program, and what are you getting, and so forth. And I think similar efforts have been underway for some time in the services.

Senator HUMPHREY. They do not seem to have borne any fruit yet.

Mr. DUBE. It is a terribly difficult problem. It really is.

Senator HUMPHREY. Do you have any idea when DOD is going to publish these new readiness indicators?

Mr. DUBE. I franky do not. I do not know.

Senator HUMPHREY. That is not your department, is it?

What systems are available to you to monitor the execution of programs funded under O&M?

Mr. DUBE. Well, basically the continuing review that we have of the budget and the events that are going on there and our oversight into the reprogramming system for which the services request changes from the Congress through the reprogramming system. When we review the 1987 budget, we then take another look at the 1986 column, and we are continuing, and the services are continuing to monitor the execution and feeding information to us.

General WILLIAMS. Senator Humphrey, as Commodore Taylor pointed out during the year of execution, there is a very comprehensive midyear review where we look at the total program as executed up until that point, and then make projections about what the future 6 months would look like, and that is the major time during the year that we tweak and adjust, and of course our accounting system follows that in sort of a review and analysis type of operation.

We know during the year exactly what is taking place, because our cost accounting system is in place to do that, but the midyear review is the major vehicle.

Senator HUMPHREY. Thank you.

Mr. Dube, how many people in your directorate? How many people do you have working for you?

Mr. DUBE. Eighteen, including secretarial support.

Senator HUMPHREY. That does not sound like an awful lot of resources to conduct much in the way of review, is it?

Mr. DUBE. I think it is adequate to conduct a review because, remember, it is not my responsibility to manage these programs. That is in the services. I have an oversight responsibility, and it is not as though I should know as much as they know about those programs. If I do, one of us is not doing our job. It is a much more summarized review.

Senator HUMPHREY. How do you ensure that O&M funds are used to fund the highest priority programs?

Mr. DUBE. Well, in the course of our review, the services submit their budgets to us, identify where it is that they say the money

needs to be spent, and we try to evaluate it, applying certain commonsense tests and so forth. We rub that up against the Secretary's priorities and the service priorities, and wherever there appears to us to be some instances where that does not look like the highest priority things are being taken care of, then we make those recommendations to the Secretary to adjust the budget.

Senator HUMPHREY. Well, how about the followup to C, to examine the actual spendout to see that the highest priority accounts are adequately funded?

Mr. DUBE. Well, essentially that becomes part and parcel of the review process in terms of looking at a budget. You are looking at the actuals and how the actuals fared compared to what was budgeted. It is true in any situation. What actually happens is going to be different because it occurs 1½ years after the budget was put together. There are a lot of changes that happen, but we do test that to make sure it is in roughly those categories.

Senator HUMPHREY. Regarding depot maintenance, do you have historical data to which you can compare proposed O&M budgets?

Mr. DUBE. We usually take a look at recent history and take a look at what is being planned and what the expected cost is in relation to what we have recently experienced.

Senator HUMPHREY. Do you make that comparison?

Mr. DUBE. That is part of our review.

Senator HUMPHREY. Will you describe the initiatives being taken to improve productivity and efficiency so as to reduce O&M costs in the supportive systems?

Mr. DUBE. I am not sure I know how to say in two sentences what is happening. There are always a number of initiatives underway. We have significantly increased our asset capitalization program in the industrial funds to try to get the machinery to become more efficient.

We have emphasized efficiency in reviews to attempt to fund those things. The services have active programs. There is a productivity office in the office of the Secretary of Defense, and there is a wide range of programs ongoing at all times to try to do that.

Senator HUMPHREY. Can you give me any examples of budget submissions that have been reduced from what they might have been thanks to efficiencies of that kind?

Mr. DUBE. Well, virtually every budget we submit assumes some increases in productivity over what we have experienced, and savings are reflected from that.

Senator HUMPHREY. Assumed on the basis of what? Around here we assume improvements on the basis of hope. In Congress, I mean.

Mr. DUBE. Essentially you assume the improvements in the budget, and you do not include the resources for it. One of two things happens. Either you achieve those savings or, if not, then you have got to give up some program, and both of those happen in different combinations and different circumstances. Our assumptions are not always precisely correct, but we do tend to assume those savings.

Commodore TAYLOR. If I may for a couple of examples, as Mr. Dube says, it is across the board where we are trying to apply management initiatives and other economies and efficiencies to get the

most, and that is why O&M remains basically, if you look at it, a fairly level funded program.

But if I may in the area of ship operations, just a few things. Right now we are launching fewer escorts in our battle group. We are using the Virginia Cape operations areas instead of going down to Puerto Rico to cut down steaming time. We are reducing the op tempo for the units before they go into overhaul, replacing carrier battle groups with battleship battle groups. We are reviewing training requirements for duplication, eliminating them, increasing the use of the fleet training anchorages, liberalizing equivalents.

Senator HUMPHREY. OK, Commodore, that is fine.

Commodore TAYLOR. I could do the same thing for our aircraft rework program, both of which are big programs.

Senator HUMPHREY. Thank you.

What are the reasons why the DOD service management have not taken the initiative to fully implement interservice support, consolidation of base support operations, and establishing a single role manager for aircraft depot maintenance.

Mr. DUBE. That is a tough one to answer in terms of why they have not. It is essentially based upon not being confident.

Senator HUMPHREY. Not being what?

Mr. DUBE. Not being confident that they can get their job done when they have lost control of something, and that they will not in the process give up something in terms of their ability to meet their mission. That becomes a problem with consolidation.

Senator HUMPHREY. Everybody wants to control his operation fully. Is that where it ends?

Mr. DUBE. By no means is that where it ends, but you ask why is it such a difficult problem.

Senator HUMPHREY. Well, what happens when people raise that objection. What is done at that point?

Mr. DUBE. It tends to be kicked up.

Senator HUMPHREY. And nothing happens?

Mr. DUBE. In some cases the decision is made to go ahead and consolidate, and in other cases we do not do it.

Senator HUMPHREY. Senator Dixon?

Senator DIXON. I wanted to just review one thing again with you to see if I understand it correctly.

First of all, General, you said that you do a midyear review. That was my understanding of the terminology?

General WILLIAMS. Yes, sir, that is correct.

Senator DIXON. Is that a mid-fiscal-year review around the end of March?

General WILLIAMS. It is a mid-fiscal-year review for the year of execution. For example, in fiscal year 1985 we just completed, we would be talking about the March, April timeframe.

Senator DIXON. I see. So that in the March, April timeframe coming up you will do a midyear review of this fiscal year that began October 1, 1986?

General WILLIAMS. That is correct.

Senator DIXON. Would that be a good time for this subcommittee to prepare in the subcommittee to have that information in hand, to have another overview of how you are progressing? I do not know that we do that with you.

General WILLIAMS. At this point we do not provide anything to the Congress. That is correct.

Commodore TAYLOR. If I may, with one exception, and it is, if we discover emergent requirements in that timeframe, I think there is probably a pretty good flood of reprogramming requests which we come down with as a result of what we are finding out on how the year of execution is going. We try to handle it within our flexibility that is given to us within thresholds, but otherwise, we have to come down, and we are working all the time with the staff on both sides of Congress.

Senator DIXON. Another thing I understood you to say was that right before the President sends us the budget, you have your last review again at that time, and the one in which you determine whether your yardsticks and other things are correct. I take it that would be when, in January?

General WILLIAMS. In December, just prior to the President's budget submission.

Senator DIXON. I suppose we generally do meet with you at those times to get the latest information you have. I have only been a member of the committee for a couple of years.

Mr. DUBE. One of the reasons, Senator, is that at that point you are essentially done with 1 fiscal year, and we have not submitted the next one that you are going to look at at that point. In this case in November and December this year, fiscal year 1986 you are finished with, and we have not served you up fiscal year 1987 yet, so usually there is no back and forth at that point.

Senator DIXON. I do not like to go back to an unpleasant subject again, but I suppose you are aware of the fact that this 3-percent growth given you in the budget that we have adopted over the next several years probably is refined by the legislation we are passing here. If all this becomes a reality, it will amount to about zero growth in defense, if my understanding of the facts is correct.

I do not know how you prepare yourself for that, but I thought once again I wanted to suggest to you that the departments and the various services ought to be aware of the fact that there are some reevaluations that are going to be necessary if all of this comes to reality, and I expect it will.

Mr. DUBE. Again, I think I would repeat that there is a certain amount of worrying going on over that, and understandably, I guess.

Senator DIXON. Let me ask you this, too, Mr. Dube. There is a general feeling in the Congress that funding in the O&M accounts has the most direct and immediate impact on readiness of any area of the defense budget. I presume that you would agree with that view.

Mr. DUBE. Yes; although we ought not to look at it as though O&M is readiness and the procurement accounts are not readiness. There are a lot of dollars that are readiness-related in the procurement accounts, and it is just as important to readiness. We do not own readiness.

Senator DIXON. I understand. As you know, the O&M account supports equipment readiness through operational activities such as flying hours, ship operations, and training exercises. We have been talking about that here. CBO noted in a study earlier this

year, and I quote, that "Although these O&M categories have shown the largest rates of funding increase, changes in readiness measured by these indicators are slight and mixed."

For example, CBO says the number of Army training days had remained unchanged from 1982 to 1984. The Navy flying hours, Commodore, fell by 2 percent from 1980 to 1984, and Air Force flying hours, Colonel, rose by only 6.4 percent from 1980 to 1984.

I ask you, Mr. Dube, in your view, is it fair to conclude as CBO did that "it is difficult to link the sizable increases that have occurred in O&M funding to measurable improvements in most categories of readiness?"

Mr. DUBE. It is fair to say it is difficult to link them. It is not fair, I think, to imply that the funds have not had a positive effect on readiness, and I think that gets back down to what we have to do or what we have been using as the measures of readiness.

I think the Commodore said a few moments ago that it is in terms of what we are doing that represent true increases in the readiness and the ability to bring the capability we have to bear are real. They are not expressed very well in some of the measures that we have been using, and that is why we are struggling to find better ones. But it is true there are some difficulties in relating the resources and the readiness output that is associated with those resources. That is a fair statement.

Senator DIXON. I do not know what the Chair is going to do here, gentlemen, but we have a vote. I hope, Mr. Dube, you will be able to sleep all right tonight after talking about Gramm-Rudman this afternoon. [General laughter.]

Mr. DUBE. I am looking forward to seeing more of the conference sessions on TV. They are fascinating. [General laughter.]

Senator DIXON. If you gentlemen will excuse me, I am going to go up and vote. Thank you very much.

Senator HUMPHREY. Well, if we work fast, maybe we can wind this up here.

Mr. Dube, on what are the outyear estimates for O&M needs based?

Mr. DUBE. I am sorry.

Senator HUMPHREY. On what do you base your outyear O&M estimates? How do you construct them?

Mr. DUBE. By individual line items. The services develop their estimates based upon the best information available about what has happened and what is expected to be happening, and relating to what is it that drives the cost. As I indicated when I opened, there are a lot of very different things that affect those costs. They try to predict those costs to match them up against the program that is approved, and the force structure and weapons systems that are expected to deliver, and make their best estimate.

Senator HUMPHREY. Item by item.

Mr. DUBE. Budget line category by category.

Senator HUMPHREY. You make it sound like a very involved process.

Mr. DUBE. It is.

Senator HUMPHREY. I have heard some alleged that you simply take historical data and post some percentage increase, and that is it.

Mr. DUBE. That could not be further from the truth. It is done in a very low level of detail, with all of the known variables.

Now, I have to emphasize, Mr. Chairman, that in estimating costs out 3 and 4 years, a lot of errors are made. But it is done very carefully and done very finitely with a lot of time and effort.

Senator HUMPHREY. I want to talk about the effect of migration. To what extent has migration expanded the need for O&M spending in recent years?

Mr. DUBE. I do not have the number, but there have been a number of things that have added to the O&M requirement.

Senator HUMPHREY. Is that accounted for in projecting out your O&M needs, expected migration?

Mr. DUBE. Yes, sir.

Senator HUMPHREY. As systems mature?

Mr. DUBE. Yes.

Senator HUMPHREY. So that is no surprise, and that is being adequately provided for in future systems as far as you know?

Mr. DUBE. As far as we know, yes.

Senator HUMPHREY. You are not just hoping?

Mr. DUBE. Well, again, there is always uncertainty as to what the real cost will be, but to our best information, yes.

Senator HUMPHREY. What are some of the systems that are about to migrate and what plans? Can you give us some examples on what plans you have made to accommodate?

Mr. DUBE. Well, if I could ask my service colleagues to give some of the major systems——

Senator HUMPHREY. Do not ask the Navy. He gets too enthusiastic. Besides, the other fellows want equal time. [General laughter.]

All right. You do not have any on the tip of your tongue?

Colonel VON BARGEN. I think the 3080 threshold change on investment equipment would be one.

Mr. DUBE. He is talking about significant weapons systems.

Senator HUMPHREY. Yes; just give me one example. I want——

Mr. DUBE. The B–1.

Senator HUMPHREY. How have you planned so as to accommodate that additional O&M expenditure in that case, in that example?

Colonel VON BARGEN. During the development stages of the B–1 we programmed for O&M costs with that weapons systems from when it comes into the inventory, and actually, we do not look at that as a migration item because it is a replacement weapons system.

Senator HUMPHREY. What is your historical experience, Mr. Dube? Are these estimates for O&M? Are these O&M estimates for new systems pretty good, or are they generally far under the real need? What is the experience?

Mr. DUBE. Well, because we are continually updating them, it is hard for me to say that. In other words, what we have in the 1986 budget was born a long time ago, and has been updated finitely, and anything we are talking now in the outyears we are going to update consistently, and so it is hard for me to say what they are.

Senator HUMPHREY. I do not see why we cannot do the balance of these as written questions provided that you give us a response within 1 week. Would you do that? We have a vote under way. And

I do not see really any point in coming back after the vote. So, we will ask you to answer for the record the balance of these questions in writing within a week's time, Mr. Dube. Can you do that?

Mr. DUBE. I believe we can. I think we can, if they are similar to the ones we have had already.

Senator HUMPHREY. Thank you. I feel a very strong need to find some way to try to achieve uniformity among the services in their O&M accounting and in their request so that we can begin to compare these things service by service. Everyone seems to do his own thing under the present structure in terms of nomenclature and in which pile the beans fall. And it makes it very difficult. You have got 18 people. That is 17 more than I have got, and I do not think 18 is nearly adequate, frankly, when you consider the amounts of money involved. It is a false economy to scrimp on staff help. We do it around here. Thank you very much.

Mr. DUBE. Thank you, sir.

[Questions with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR GORDON J. HUMPHREY

SPECIAL AREA OBJECTIVES

Senator HUMPHREY. Each year the Congress directs a number of DOD studies, usually as a form of compromise during the floor debates and/or conference. Do you have an estimate of what these studies cost?

Mr. DUBE. We do not have an estimate of the cost of these studies, but it would undoubtedly be substantial.

Senator HUMPHREY. It is my desire to help make O&M more efficient and effective, and thereby get the most for each O&M dollar spent.

Have the legislative actions by the Congress, and in particular this subcommittee, had a less than positive effect on O&M operations?

Mr. DUBE. We are unaware of any specific legislative actions by this subcommittee which have a negative effect on operations. However, various restrictions and provisions in annual authorization acts sometimes result in higher costs or inefficiencies.

Senator HUMPHREY. Are there any particular problems that come to mind?

Mr. DUBE. The most prevalent problem stems from specific restrictions on actions which may be taken by the Department, such as contracting out studies, base realignment actions, types of heating fuel to be used and similar restrictions. In many instances higher costs are incurred as a result of these restrictions.

Senator HUMPHREY. Are there any hindrances which require legislative corrections?

Mr. DUBE. Every year the Department submits legislative proposals for consideration by the Congress. Some of these proposals involve changes to reduce costs and improve efficiency. Last year, for example, our legislative program included proposals to reduce CHAMPUS costs and to reduce fuel procurement costs. Neither of these proposals has been enacted. We would recommend favorable consideration of these and other proposals submitted by the Department in its legislative program next year.

Senator HUMPHREY. Recent legislation to encourage competition and small business emphasis has been enacted. This legislation has directed acceptance of bids and products from "unqualified" sources. Has this change had a bad impact on O&M actions?

Mr. DUBE. Due to the recentness of enactment, the impact of the legislation has not yet been determined.

Senator HUMPHREY. The DOD say they build a "balanced" budget between modernization and readiness; procurement and O&M; and investment and O&M.

Do you have ratios/percentage showing this shifting balance?

Mr. DUBE. The following table displays in constant fiscal year 1986 dollars the level of real growth realized and programed fiscal year 1982 through fiscal year 1988 using fiscal year 1981 as the base year. The modernization funds which represent investment in new and modernized weapon systems are compared to overall support resources. The support category is comprised of the support portions of the procurement accounts as well as operation and maintenance and stock funds.

The modernization category is defined as procurement of major new weapon systems or additional procurement of existing systems. This includes major end items such as aircraft, ships, missiles, combat vehicles and initial spares and repair parts. The procurement support category includes resources for modification of existing equipment, service life extension programs, ammunition, support vehicles, and replenishment spares.

As displayed in the table, a significant share of the rate of growth for the period fiscal year 1981–1988 has been allocated to the overall support category. The major share of that growth takes place in the late 1980's as follow on support of modernization initiatives programed in the early 1980's. In comparing growth for the two categories (modernization/support) for fiscal year 1985–1988 it should be noted that growth for support programs increases 31.9% while modernization increases 18.5%. The higher percentage in the support category is reflective of growth programed in the weapon systems modernization category during fiscal year 1981–fiscal year 1985 of 61.7%.

FISCAL YEAR 1986 PRESIDENT'S BUDGET—CONSTANT FISCAL YEAR 1986 DOLLARS

[In billions of dollars]

	Modernization procurement costs	Support			
		Total support costs	Procurement costs	Stock fund	O&M costs
Fiscal year:					
1981	41.5	84.8	21.2	0.7	62.9
1982	51.9	94.9	26.4	.4	68.1
1983	67.2	97.4	25.1	1.1	71.2
1984	65.2	106.7	29.8	2.9	74.0
1985	67.1	115.6	34.5	1.6	79.5
1986	71.1	120.1	35.7	1.9	82.5
1987	72.6	137.0	44.4	2.2	90.4
1988	79.5	152.5	49.8	2.6	100.1

Senator HUMPHREY. At this time the Congress is debating various deficit reduction packages. Have you evaluated the Gramm, Rudman, Hollings proposal as to its effect on O&M funds and programs?

Mr. DUBE. Since the proposal has not been finalized, we have not been able to determine the impact of the ultimate legislation on the O&M accounts. It is not possible at this point to determine the size of any reductions which will be required or what the O&M share of any required reductions will be.

[Thereupon at 3:25 p.m., the subcommittee was adjourned, to reconvene upon the call of the Chair.]

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